DIRECT TESTIMONY OF

J. DARRIN KAHL

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2010-2-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is J. Darrin Kahl, and my business address is 1400 Lady Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by SCANA Services, Inc. ("SCANA Services") as Manager, Supply and Asset Management.

Q. PLEASE DESCRIBE YOUR DUTIES RELATED TO NATURAL GAS PROCUREMENT FOR ELECTRIC GENERATION IN YOUR CURRENT POSITION.

A. I am responsible for gas supply and capacity management functions for the natural gas-fired generating facilities operated by South Carolina Electric & Gas ("SCE&G"). These responsibilities include procurement of gas supply and capacity, nominations and scheduling.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I graduated from the University of South Carolina in 1991 with a Bachelor of Science degree in Accounting. Following graduation, I accepted a full time staff accountant position with an electronic security services company where, from 1991 until 1997, I held various roles within the accounting areas of audit, information technology, and financial reporting. I concluded my tenure with the company as Supervisor of Accounting and, in 1997, I joined SCANA Energy Marketing, Inc. ("SEMI") as an Energy Services Coordinator performing a variety of job functions, including tariff analysis, gas supply procurement and scheduling. In 1999, I assumed the role of Transportation Coordinator which included intrastate and interstate pipeline scheduling, producer services, and gas supply procurement. In 2002, I accepted the position of Supervisor of Scheduling with SCANA Services where my responsibilities included supervising a team of employees who conducted nominations, scheduling, and balancing on interstate pipelines for all of the SCANA gas subsidiaries. From 2003 through 2007, I assumed the position of Manager of Operations & Gas Accounting, where I was responsible for the day to day operations of gas scheduling on interstate pipelines and gas accounting. Currently, I am the Manager of Supply and Asset Management with SCANA Services, where I manage a team of employees responsible for natural gas procurement, transportation, scheduling and balancing.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSION?

A. Yes, I testified before the Public Service Commission of South Carolina ("Commission") last year and the Georgia Public Service Commission in 2007.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my direct testimony is to provide information about the natural gas purchasing process for SCE&G generation and to discuss natural gas prices for the review period of January 1, 2009 through December 31, 2009 ("Review Period") and the near term outlook.

Q. PLEASE DESCRIBE HOW YOUR DEPARTMENT MAKES PURCHASING DECISIONS.

A. The gas purchases made by the Supply and Asset Management Department ("Department") are driven by the needs of the electric generation group. Part of what we supply SCE&G's Economic Resource Commitment Group ("ERC") is current market information that can be used in resource commitment modeling for our electric generation plants. The ERC requests gas price quotes and market information from the Department on a continual basis. The ERC uses current gas

prices as one input into its dispatch modeling to determine the most economical means of reliably meeting the electricity needs of our customers.

The actual gas purchasing decisions are driven by the unit commitment decisions made by the ERC. Once ERC decides that natural gas is the economical choice for providing reliable power to our customers, our Department is directed to purchase gas supplies for delivery with a stated term and volume at the best available current market prices.

Q. ARE YOUR CONTRACTS TO PURCHASE GAS NORMALLY SHORT-TERM OR LONG-TERM?

A. We have standing industry standard contracts with a group of suppliers that set forth many of the terms and conditions of delivery. Price and quantity, however, are determined at the time of purchase because the purchase of gas supplies for electric generation is generally made within hours of the need to burn the gas to generate electricity. The purchase is a short-term transaction that must be completed using current pricing for natural gas in the market.

The most common prices quoted for daily gas deliveries are the day ahead gas price. The Gas Daily Average or GDA, for example, is an average of these day ahead prices, reported on a historical basis the next business day.

The day ahead gas market, however, closes at mid-day of the day before the gas is delivered. Because some unit commitment decisions may not be made until

the following morning, GDA prices are not available for all supply purchases for electric generation. In these situations, the gas we purchase for electric generation is made in the intraday market.

Q. WHAT TOOLS DO YOU USE TO INFORM YOUR PURCHASING DECISIONS?

A. The most important tools used to inform our purchasing decisions are the Department's collective experience in national natural gas markets, careful observation and evaluation of movements in market-based prices, and continual surveys of our long-time suppliers for pricing information. These tools are by far the most important and most accurate in helping us determine market-based prices for natural gas supplies being purchased on the "spot market."

Another tool we use to inform our purchasing decisions is the Intercontinental Exchange ("ICE"), which is a real time electronic trading board. The shortcoming of the ICE service as with other publications is that not all trades are reflected in these services.

Q. DOES NEW YORK MERCHANTILE EXCHANGE ("NYMEX") PRICING AFFECT YOUR DECISION WHETHER TO PURCHASE NATURAL GAS FOR EITHER THE URQUHART COMBINED CYCLE UNITS OR THE JASPER FACILITY?

A. NYMEX is a financial market, which captures real-time trading data and information about the projected price of natural gas and other commodities at various times in the future. We use NYMEX pricing data infrequently for calculating a benchmark relative to gas supply for either Urquhart or Jasper. Since these units are intermediate turbines, the ERC decides whether to operate these facilities based upon the daily demands of SCE&G's customers and its system. Consequently, most of the gas purchasing decisions for these plants are short-term, that is, for a day at a time or across a weekend or holiday period.

Q. WHAT TRANSPORTATION CAPACITY DOES SCE&G HAVE FOR THE URQUHART COMBINED CYCLE UNITS AND THE JASPER FACILITY?

A. SCE&G has a long-term capacity contract with Southern Natural Gas Company for firm transportation service of 51,050 dekatherms per day to serve Urquhart. The Department, as requested by the ERC, procures the natural gas needed to supply Urquhart. We have in excess of 40 different suppliers that we survey at various times to secure our gas supplies at market-based rates and from entities that have proven to be creditworthy and reliable.

For Jasper, SCE&G has contracted with SEMI for firm gas capacity of 120,000 dekatherms per day. SEMI provides gas supply when needed.

Q. PLEASE DESCRIBE THE MOVEMENT OF NATURAL GAS PRICES DURING THE CURRENT PERIOD UNDER REVIEW.

A. The downward trend in natural gas prices that began in the summer of 2008 continued through the summer of 2009. As depicted in Exhibit No. ___ (JDK-1) attached hereto, calendar year 2009 began with natural gas prices in the low six dollar range, with the high for 2009 being set during the third trading day of the year at $6.240 per dekatherm ("Dth"). Prices fell steadily throughout the remainder of the winter as the mix of low demand due to the struggling economy and high storage levels combined with new supply from shale gas to send prices to the low three dollar range by late spring. Natural gas prices rallied during the summer, boosted by fuel switching as natural gas became more economical than coal at some plants, increasing the amount of natural gas used for electric generation. However, with storage levels continuing to climb and with the end of peak summer electric generation demand and peak hurricane season nearing an end, natural gas prices began falling again in August, ultimately reaching their lowest level in seven years of $2.409 per Dth in the first week of September. Since early September, prices have rebounded as falling rig counts for most of the year resulted in a drop in production, leveling out the supply and demand balance.

In addition to the decline in supply, the below normal temperatures during the first half of the winter helped raise natural gas prices back to the six dollar range during the final days of 2009.

The near term forecast indicates natural gas prices will remain fairly flat due to the short term outlook for balanced supply and demand. However, short term price volatility can result from dramatic changes in either supply or demand components. The fundamental factors of such changes may include but are not limited to weather, increased consumption associated with an economic recovery increases in supplies from unconventional shale production, storage inventory levels and/or pipeline capacity constraints.

Q. WHAT REQUEST DOES SCE&G MAKE OF THE COMMISSION IN THIS PROCEEDING?

A. During the Review Period, the Supply and Asset Management Department made diligent and prudent efforts to obtain reasonable market-based prices for the reliable supply of natural gas for electric generation and to procure the necessary capacity for the delivery of that supply. Therefore, on behalf of SCE&G, I respectfully request that the Commission find that the Company's natural gas purchasing practices were reasonable and prudent for the Review Period.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Exhibit No._____(JDK-1)

Daily Settle Prices